

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REVIEW REPORT
OF
INDIANA SOLDIERS' AND SAILORS' CHILDREN'S HOME
April 1, 2005 to February 28, 2007



FILED
06/27/2007

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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner, Indiana Department of Health	Judith Monroe, MD	03-07-05 to 01-11-09
Superintendent	Paul Wilkinson	07-01-04 to 06-30-07



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA SOLDIERS' AND SAILORS' CHILDREN'S HOME

We have reviewed the receipts, disbursements, and assets of the Indiana Soldiers' and Sailors' Children's Home for the period of April 1, 2005 to February 28, 2007. The Soldiers' and Sailors' Children's Home's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Indiana Soldiers' and Sailors' Children's Home are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

April 4, 2007

INDIANA SOLDIERS' AND SAILORS' CHILDREN'S HOME
REVIEW COMMENTS
FEBRUARY 28, 2007

UNAUTHORIZED CREDIT CARDS

During our review of the Indiana Soldiers' and Sailors' Children's Home, we found that the Institution has held 15 credit cards among 10 vendors without the authorization of the Department of Administration.

Credit cards may not be utilized without the authorization of the Department of Administration. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

PAYMENTS WITHOUT A CONTRACT

Our testing revealed that the Indiana Soldiers' and Sailors' Children's Home paid \$23,097.50 for the period April 2005 to April 2007, to a vendor for computer consulting services without an approved contract.

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

INTERNAL CONTROLS OVER REVENUE COLLECTIONS

The Indiana Soldiers' and Sailors' Children's Home uses an accounting software application to account for the Trust, Recreation, and Support Funds that has not been approved by the State Board of Accounts. This accounting software application lacks audit trail functions to meet the requirements for approval. The receipts generated from this software application have also not been approved to be used in lieu of prescribed pre-numbered receipts since the receipt amounts and receipt numbers generated in the software application can be manually overridden. These conditions result in a deficiency in the Institution's internal control structure.

Controls over the receipting, recording, and accounting for financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. All receipts, licenses, or other accountable items must be prenumbered or sequentially numbered by computer when issued. Documents should be used in sequential order. If the volume warrants, a separate numeric series should be used for different revenue sources. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

All accounting forms, records, and systems used are required to be prescribed or approved by the State Board of Accounts. This includes all statements and reports necessary for the internal administration of the office to which they pertain. It also includes electronic, automated or computerized systems. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

INTERNAL CONTROLS OVER MEAL TICKET SALES

Our testing of revenue collections at the Indiana Soldiers' and Sailors' Children's Home revealed that meal tickets issued to visitors are not prenumbered, resulting in a deficiency in the internal control structure.

An institution should account for meal sales using meal tickets. To ensure the accountability over meal ticket sales, all meal tickets must be prenumbered and issued in sequence. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 13)

INDIANA SOLDIERS' AND SAILORS' CHILDREN'S HOME
REVIEW COMMENTS
FEBRUARY 28, 2007
(Continued)

RECREATION FUND

Internal Controls Over Cash Receipts

The Indiana Soldiers' and Sailors' Children's Home operates a store in the Student Center and a beauty shop in the Eder Vocational Center. The Student Center sells snacks and soft drinks to students. The beauty shop performs cosmetology services. Cash is received for these sales. Receipts are not issued for each sale. Therefore, we were unable to verify the amount of funds collected from these sales. Also, the funds are not submitted to the Superintendent's Office each day for daily deposit.

Institutions should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, safeguarding controls over cash and all other assets, and all forms of information processing are part of the internal control system. Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and monthly reports, and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 13)

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

Improper Documentation

As stated in our prior Report B25205, the Indiana Soldiers' and Sailors' Children's Home does not maintain proper documentation for Recreation Fund disbursements. Approvals for disbursements were made without adequate documentation as to the purpose of each disbursement. Due to the lack of adequate documentation, we were unable to determine that the purchases were for the direct benefits of the students of the institution.

Each Recreation Fund disbursement should be documented with the purpose for the disbursement, person and department requesting the purchase, date requested, date paid, amount of payment, check number, written approval of the superintendent or designee, vendor invoice, and verification that the goods were received. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 13)

Outstanding Checks

As stated in our prior Reports B16945 and B25205, the Soldiers' and Sailors' Children's Home Recreation Fund account has several checks which have been outstanding for over two years.

Indiana Code 4-10-10-1 provides that all checks authorized by law to be issued from funds in custody of any state agency which have been outstanding and unpaid for a period of two or more years as of the last day of December of each year shall be declared canceled.

It is our position that once declared canceled; these checks shall be entered as a receipt into the fund or account from which they were originally drawn and be removed from the record of outstanding checks.

INDIANA SOLDIERS' AND SAILORS' CHILDREN'S HOME
EXIT CONFERENCE

The contents of this report were discussed on May 30, 2007, with Paul Wilkinson, Superintendent, and Allen Collier, Assistant Superintendent. The official response has been made a part of this report and may be found on pages 7 through 10.



INDIANA SOLDIERS' AND SAILORS' CHILDREN'S HOME

"ISSCH...SERVING the YOUTH OF TODAY — BUILDING the COMMUNITIES OF TOMORROW"

OFFICIAL RESPONSE

June 13, 2007

State Board of Accounts
302 W. Washington St., Room 418E
Indianapolis, Indiana 46204-2738

To Whom It May Concern:

The contents of this report were discussed on May 30, 2007 with Paul Wilkinson, Superintendent, and Allen Collier, Assistant Superintendent. The official response has been made a part of this report as follows:

UNAUTHORIZED CREDIT CARDS

These fifteen (15) credit cards have been in existence for as many as ten (10) years. They represent accounts with ten (10) different business entities. Five of these accounts have never been used. Only three accounts are used regularly; two (2) for gasoline purchases during extended student trips and one (1) for small non – typical/emergency purchases. All accounts were opened prior to when the current Superintendent and Assistant Superintendent were named to their current roles. No new accounts have been opened by these individuals.

All cards have been locked in—and signed out from—the Business Office. Effective immediately they are in the possession of the Assistant Superintendent. These accounts will be closed at the earliest possible date. Alternative approved methods will be used for gasoline purchases in the future. A petty cash fund based on our SDO account will be set up for miscellaneous purchases.

PAYMENTS WITHOUT A CONTRACT

Services have been provided to ISSCH by the vendor in question for over ten years. A well established relationship existed with this vendor prior to when the current Superintendent and Assistant Superintendent were named to their current roles. Since use of these services is highly unpredictable, following past practice, a contract for them has never been drafted or approved.

Forthcoming internal personnel changes will greatly reduce the need for these services next year. A contract will then be drafted with this vendor when the need for these services is more fully understood.

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INTERNAL CONTROLS OVER REVENUE COLLECTIONS

At issue is the use of Quickbooks for various funds. This application was installed in 1999 to replace a custom designed software package that had been developed by an ISSCH employee for similar purchases. Quickbooks was the commercial application software of choice at that time. This took place years before the current Superintendent and Assistant Superintendent were named to their current roles.

Until an alternative, state – approved, software package can be identified, daily transaction summaries will be printed and signed off, then filed according to current document retention rules.

INTERNAL CONTROLS OVER MEAL TICKETS

Visitor meal ticket use is extremely low (avg. 12 per month). According to long time Dietary employees, these tickets have never been numbered. The only action taken by the current Superintendent and Assistant Superintendent was to laminate tickets that had been created in accordance with past practices (without any numbers) to replace an older, tattered version. Sequentially numbered tickets were not incorporated since they had not been required in the past, in an effort to save operating budget funds, consistent with other State goals.

A new ticket system has been created that involves the sequential numbering of visitor meal tickets.

RECREATION FUND

Internal Controls over Cash Receipts

Past practices have been that the Student Store sends the receipts for deposit once or twice a week as money accumulates leaving \$25.00 in the cash box and the beauty shop sent its receipts over weekly in a lump sum for the week. The beauty shop now has numbered receipts in triplicate and now sends their receipts over morning and afternoon daily. The student store sends their receipts over daily from sale of candy and ice cream from the canteen and receipts over weekly for the candy machine, 20 oz. coke machine as well as the 12 oz coke machine. Receipts are made separately for each for deposit in the recreation fund. Three part numbered receipts will be used to document individual over the counter sales.

Improper Documentation

Paragraph 1: Bills detailing expenses were attached to requisitions but not listed individually on the requisition, many of which were due to lack of space on the requisition in the provided area. We thought we had proper documentation as this is the practice we have used for many years. We will comply with additional documentation as requested to include the name of the recipient of the item, department and date the product or service was received and where appropriate the list or number of students who benefited from the activity or purchase and the purpose for the disbursement.

Paragraph 2: Each disbursement from the Student Recreation Fund has been documented with the person requesting the purchase with the department head only approving and signing the request from his/her department. The date requested, date paid, the amount of payment, check number, vendor invoice practices have been in place for many years. We will, in the future, have the superintendent or his designee also approve and sign the purchase prior to payment.

Outstanding Checks

Outstanding checks over 2 years will be voided, placed back into the funds into which they came immediately therefore removing them from the un-cleared check list. This has already been completed for un-cleared checks through May of 2005. We will continue complying by cancelling all checks over 2 years annually the last day of December.

COMMENT

Currently approval is being sought for a reclassification that will bring an Accountant to ISSCH; no such function currently exists. This person will be assigned the task, among others, of keeping current with changing financial practices that are mandated by various State agencies. Future audits should reflect the presence of this new function.



Paul E. Wilkinson
Superintendent



INDIANA SOLDIERS' AND SAILORS' CHILDREN'S HOME

"ISSCH...SERVING the YOUTH OF TODAY — BUILDING the COMMUNITIES OF TOMORROW"

June 13, 2007

To: All Employees

From: Paul E. Wilkinson, Superintendent *PW*

Re: Student Recreation Fund

An audit of our agency was recently conducted by the Indiana State Board of Accounts. As a result of this audit, it was recommended that we attempt to improve our internal controls cash receipts and disbursements for the Student Recreation Fund.

Effective immediately, the following procedure must be followed by all staff when requesting any disbursement from the Student Recreation Fund:

1. A requisition must be in to Mrs. Leisure's office at least 3 business days prior to the funds being disbursed. This requisition must have the signature of the department head. The requisition must include the reason for the request, the students benefiting from this activity, the amount of funds needed, and a copy of the travel roster containing the names of the students participating.
2. All monies requested in excess of the established \$5.00 per meal student allowance must be signed for by the student receiving the funds on an approved numbered receipt. The receipt will need to be signed in the administration building when the student receives the funds.
3. All invoices presented for payment from the recreation fund must include the signature and date of the staff member who received the product and a statement of how the items received directly benefited the students.
4. No purchases may be made without prior approval by the superintendent or his designee.
5. All disbursements must have the approval of the superintendent or his designee.
6. All receipts and change must be returned to the superintendent's office

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